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Prospects for Foreign Trade in

COTTON



Foreign Agricultural Service
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PROSPECTS FOR FOREIGN TRADE IN COTTON

OUTLOOK

The upward trend in consumption of cotton, which is evident both in the United States and in most foreign countries, seems likely to continue as general economic conditions and foreign exchange positions improve and population continues to increase.

World production was at a record high in 1959-60 and is expected to continue increasing, but at a slower rate than in recent years. Supplies are expected to be adequate for increasing consumption and for carrying larger reserves when they are desired. As a result, world trade in 1959-60 is expected to reach the relatively high level of around 15 million bales, with U.S. exports accounting for at least 6 million bales.

Significant elements in the world cotton picture in the 1959-60 season are price stability at somewhat lower levels and ample supplies of all qualities, particularly in the United States.

The increases in total and per capita consumption of fibers are expected not only because of population increases and larger consumer expendable income but also because of development of new fabrics, finishes, and products and the size of technical assistance and aid programs. In some products, use of manmade fibers may continue to increase at the expense of cotton and other natural fibers. For cotton to strengthen and maintain its position in the expanding world market for apparel and household uses, improvements must be made along all segments of the competitive front. This includes technological research and market development and promotional programs that are proving to be highly effective in foreign countries.

WORLD SITUATION

Highlights of the world cotton situation in 1959-60 include (1) lower stocks in foreign countries, (2) a drop in production outside of the United States for the first time since World War II, (3) continuation of the long-time upward trend in consumption, with cotton usage reaching record high levels, (4) world trade 10 to 15 percent above that a year earlier and the largest in 31 years, except for 1956-57, (5) price stability, and (6) ample supplies of all qualities, especially in the United States.

Supply

The world supply of cotton, made up of stocks at the beginning of the season and production during the season, will reach a record high of about 68.3 million bales in 1959-60. This record supply, about 1.3 million bales above the previous high in 1956-57 and 2.0 million larger than in 1958-59, is due principally to an increase of 3.2 million bales in the U.S. crop. World consumption, also at a record high, is expected to be slightly larger than production and the world surplus will be reduced. The 1959-60 supply outside the United States, placed at 44.7 million bales, compares with 46.1 million bales in 1958-59 and an average of 41.8 million in the 1954-58 period. The U.S. supply of 23.7 million bales in 1959-60 is about 3.4 million bales larger than last season's 20.3 million, but is still 0.2 million bales less than the 1954-58 average of 23.9 million.

Stocks

Stocks of cotton in the world are expected to decline slightly in the 1959-60 season from the 21.6 million bales on hand July 31, 1959. After reaching a postwar peak of 25.1 million bales in 1956, world stocks are expected to decline for the fourth straight year.

The carryover in the United States dropped sharply for 2 years following the alltime high of 14.5 million bales in 1956, but increased slightly to 8.9 million in 1959. U.S. stocks at the end of this season are expected to be somewhat smaller than those on hand August 1, 1959.

Most of the world stock decrease in 1959-60 will be in foreign Free World countries producing upland-type cotton, as the result of lower production, increasing consumption, and strong export demand which will again siphon off most of their export availabilities. In Communist countries, continuation of the increase in consumption and lower aggregate production are likely to decrease stocks. The stock drawdowns in foreign exporting countries will more than offset some replenishment of the relatively low stocks in foreign Free World importing countries.

Production

World cotton production in 1959-60, estimated at 46.7 million bales, is at an alltime high, exceeding the previous year's record crop by 2.5 million bales. Significantly, however, production outside the United States has dropped this year for the first time since World War II and, at 32.0 million bales, is 0.7 million below 1958-59. By countries, the largest declines are in Mexico, where production, estimated at 1.7 million bales, is 0.6 million bales below 1958-59; Mainland China, since 1956-57 the world's second largest cotton producer, where estimated 1959-60 production of around 8.0 million bales will be about 0.5 million below a year earlier; and India, where a decline from 4.1 million bales last year to 3.8 million this year is expected. Some reductions were also reported for Central America, Greece, Peru, and Syria. The comparatively small 1-year drop in foreign production does not necessarily indicate a reversal of the longer-term upward trend.

The U.S. crop of 14.6 million running bales (December estimate) is up 3.1 million from 1958, chiefly as a result of a 28-percent increase in acreage for harvest from the 82-year low of 1958. The average yield of 465 pounds of lint per acre was a near-record. The 1959 acreage is slightly below the 1954-58 average but the crop is about 15 percent above the average. The U.S. crop constitutes about 31 percent of world production in 1959-60, compared with 26 percent in 1958-59 and 34 percent during the 10-year period 1949-58.

Trade

World cotton trade is showing a marked increase in 1959-60 after a 2-year decline. Total world exports could reach or exceed 15.0 million bales, nearly 2.0 million bales larger than in 1958-59, and the largest since 1956-57. U.S. exports are expected to be at least 6 million bales, more than double the very low figure of 2.8 million in 1958-59. Exports from other Free World countries as a group will probably total about 7.5 million bales or more in 1959-60, close to the average of the last 5 years. This is a decline from the near-record total of 8.7 million bales for 1958-59, but is less than the drop in the exportable supplies of these countries. Communist exports, mostly to other Communist countries, are expected to remain at about 1.6 million bales, with imports from the Free World exceeding exports by about 1.0 million bales.

U.S. exports of 6 million running bales or more in 1959-60, equal to about 41 percent of the domestic crop, will exceed the 1954-58 average by 1.7 million bales, or 40 percent. The U.S. share of world trade should increase from the low level of 22 percent in 1958-59 to about 40 percent in 1959-60. This compares with an average of 32 percent during the 5-year period 1954-58. On the basis of estimated exports and export prices, cotton will be returned to its normal position as the Nation's most valuable agricultural export commodity in the current season.

In 1958-59, Foreign Free World countries secured a near-record export volume of 8.7 million bales, equivalent to 66 percent of total world trade and thus disposed of most of their exportable supplies. At the same time, except for 1947-48 and 1955-56, U.S. exports of 2.8 million bales were at the lowest peacetime level in 85 years. Foreign Free World exports in 1958-59 were 28 percent higher than the average of 1956-57 and 1957-58, whereas U.S. exports were 58 percent lower than average exports in the preceding 2 years.

Principal destinations of this season's U.S. exports, confined almost exclusively to upland-type cotton, will be traditional importing countries, although shipments to most of the more than 50 countries using U.S. cotton will be larger. Japan and Western Europe are the major destinations. In the Asian area are also included Hong Kong, India, Korea, the Philippine Republic, and Formosa. In Europe, such countries as the United Kingdom, West Germany, France, Italy, and Spain are major importers. Important Western Hemisphere destinations include Canada, Colombia, Cuba, and Chile.

Consumption

World cotton consumption in 1959-60 is expected to total about 47.0 million bales, a new record high. This is more than 2.0 million bales, or 5 percent, above a year earlier, and larger than average world consumption in the 1954-58 period by 4.5 million bales, or 10 percent. Consumption increases are expected in most countries, including the United States. Most noticeable increases abroad will be in net importing countries, rather than in exporting countries striving for self-sufficiency in cottongoods production as has been true in recent years. Factors responsible for stimulating cotton consumption abroad include improved economic and business conditions, recovery from the textile recession, population increases, cotton promotion programs, and lower and more stable cotton prices.

Consumption in the United States in 1959-60, estimated at 9.0 million bales, will show a modest rise for the third straight year and will be the largest since the 9.2-million-bale consumption of 1955-56. Outside the United States, however, consumption this season, estimated at about 38.0 million bales, is expected to set a new record, exceeding the record total for the preceding year by 1.9 million bales. About 1.3 million of the increase will be in foreign Free World countries, most of it in net importing nations. Consumption in the Communist areas may increase to about 16.5 million bales, up from last year by about 0.6 million and above the 1954-58 average of 13.9 million bales by 19 percent.

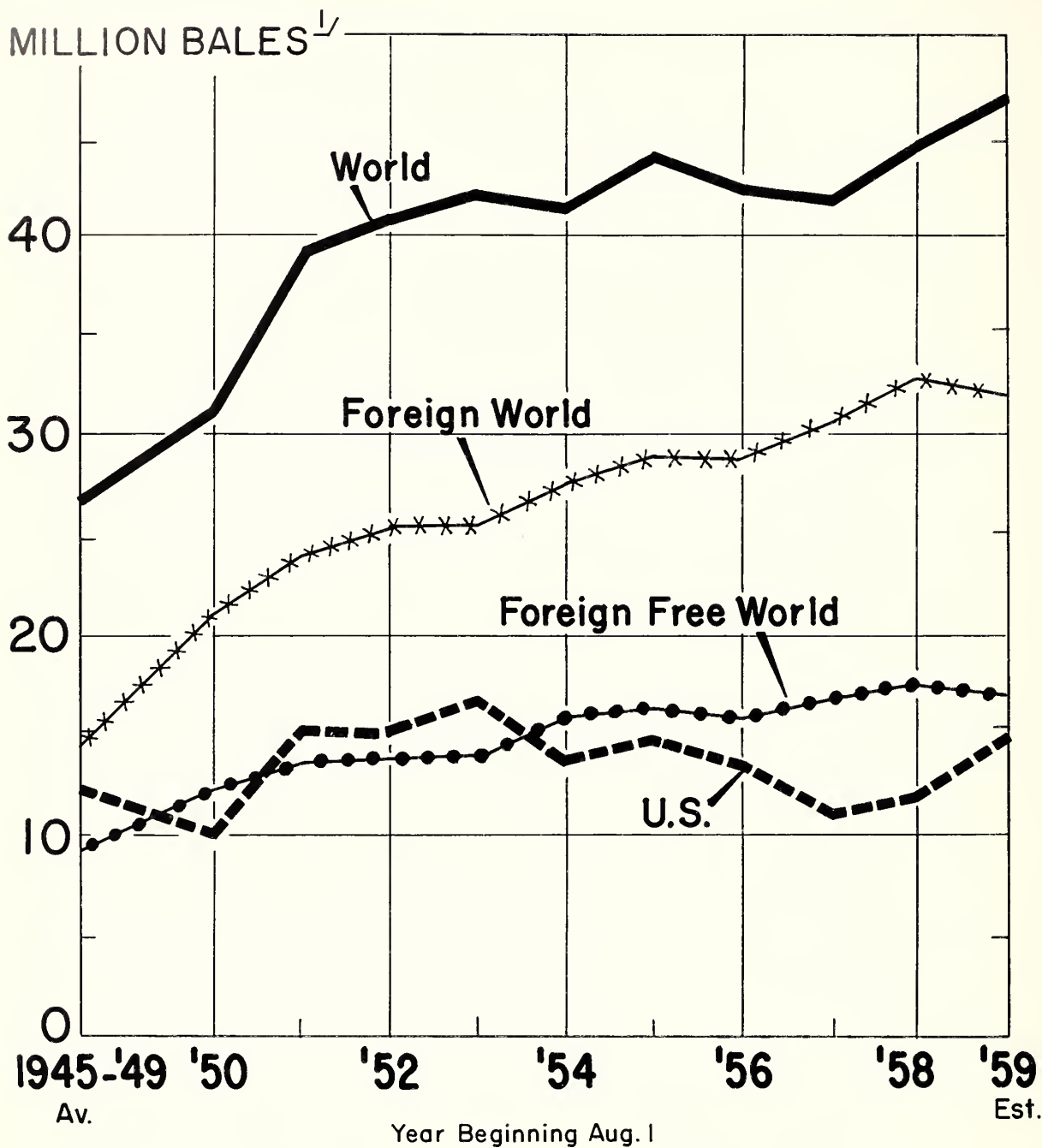
Exports of U.S. cotton, although less in the first 2 months of the 1959-60 season than last year's low level, rose substantially in October and November, with foreign mills buying heavily of medium and lower U.S. grades to fill textile orders extending into the second quarter of 1960. With U.S. cotton encountering no damaging competition pricewise by November, importers were placing sizable orders for shipment well into the calendar year 1960. On the other hand, the extent to which U.S. cotton, now generally competitive in price, will be imported for purpose of replenishing depleted stocks is difficult to estimate prior to forthcoming announcements early in 1960 which will provide more definite information on export prices for the 1960-61 season.

Prices

Since June of 1959, cotton prices in import markets have remained generally stable. Prices of U.S. cotton are around 5 cents a pound lower than in the first 3 months of the 1958-59 season and are generally competitive with those of other growths at the reduced 1959 level.

Stability of cotton prices in world markets is a major factor affecting world trade and consumption. The U.S. cotton export programs that began in 1956 brought renewed

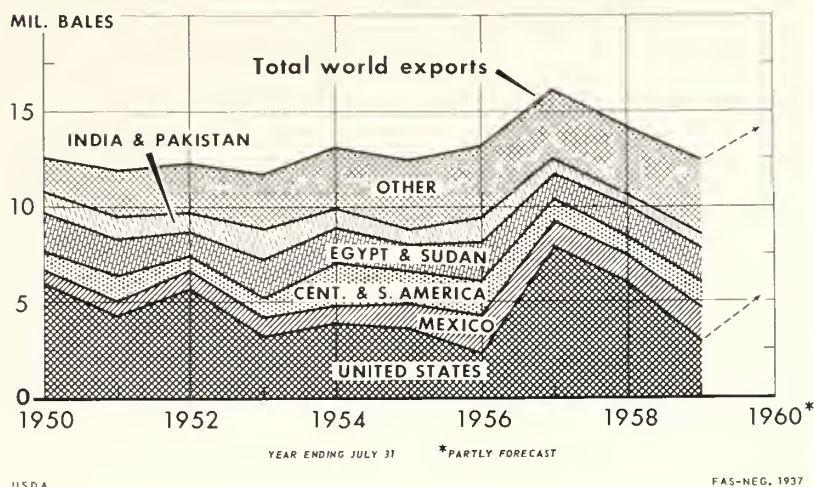
World Cotton Production At Record High



∟ Bales of 500 pounds Gross Weight.

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1959-60 World Cotton Exports Expected To Reverse Recent Downtrend



confidence to the world market, caused importing countries to rebuild depleted stocks, and were followed by substantial increases in foreign consumption. In the first 2 years of the program, world cotton trade averaged 1.8 million bales (14 percent) above that of the previous year. Mill consumption outside the United States averaged 2.5 million bales, or 8 percent above that in 1955-56. Prices of the typical growths and qualities of foreign upland-type cotton in import markets rose by early 1958 to levels around 4 cents a pound above the low point in the fall of 1956. This rise brought prices about 2 cents a pound above the depressed level of late 1955, before the advent of U.S. export programs.

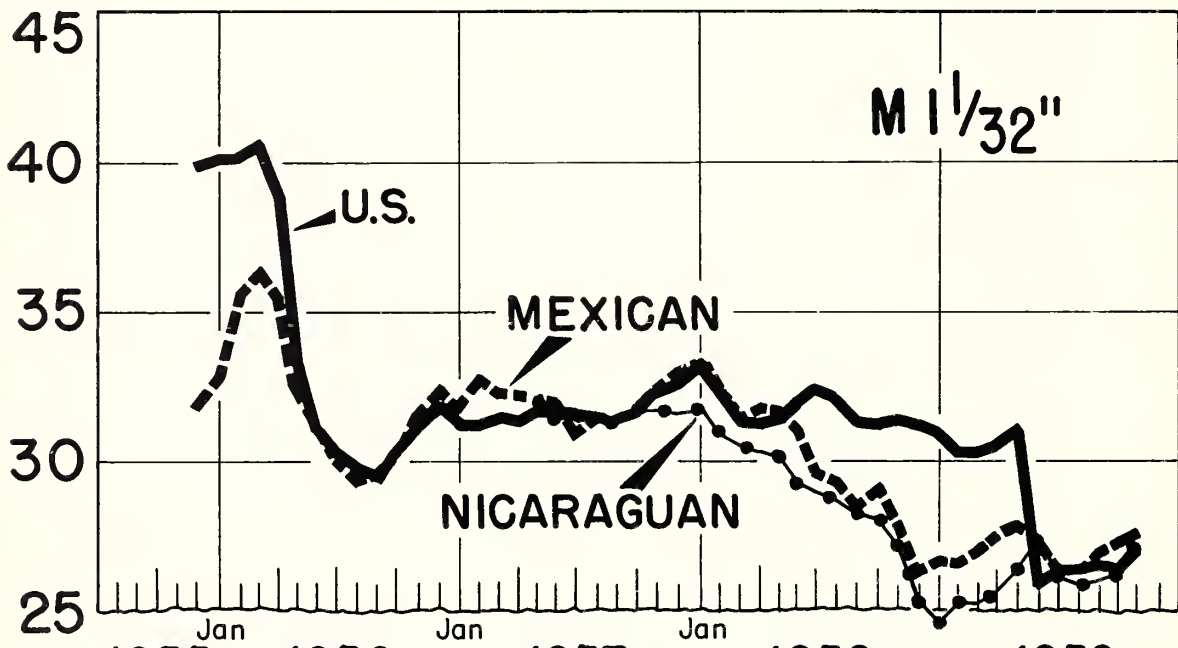
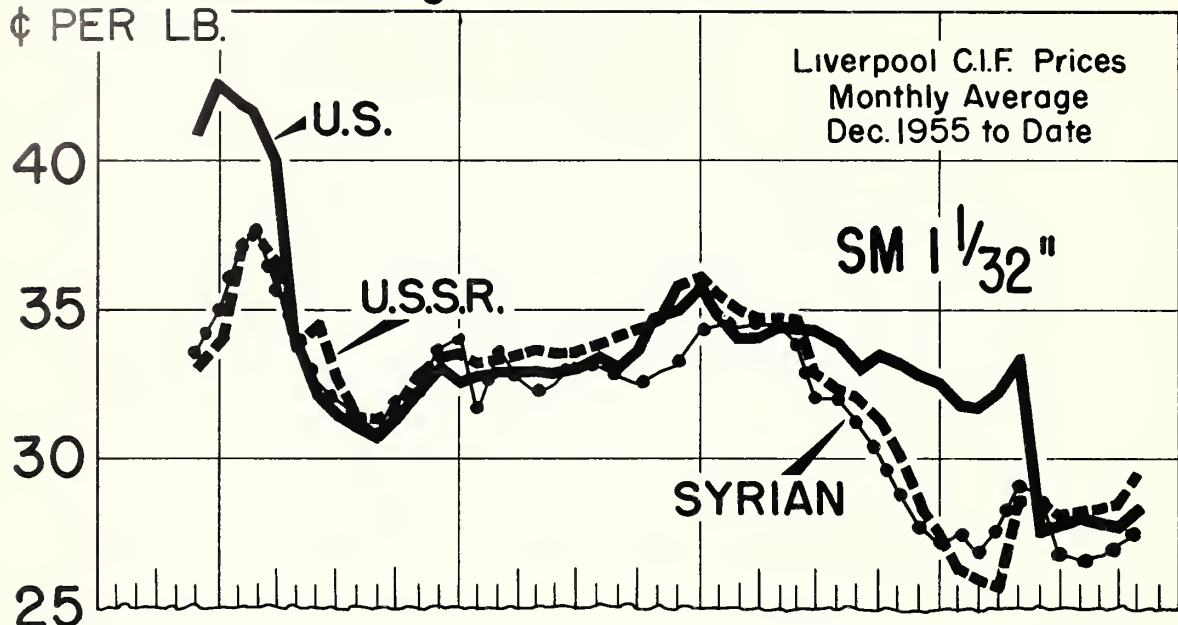
The stimulating effect of stable or slowly rising prices was also reflected in cotton production abroad, which averaged 1.0 million bales, or 3 percent, higher during 1956-57 and 1957-58. U.S. production averaged 2.6 million bales (18 percent) lower than a year earlier, as a result of acreage reductions under various legislative programs.

In 1958-59, prices in world markets suffered a temporary setback as increasing surpluses of foreign cotton were offered for export at prices well below those quoted for most qualities during the preceding year. World trade and consumption and foreign production all reacted downward. Since U.S. prices were adjusted to the lower world level for cotton exported after August 1, 1959, there has been no further decline in world prices. In fact, quotations for nearly all growths have risen since mid-1959 and continued firm at the year's end.

Price Declines of 1958-59

World prices rose slightly during the first 4 months of 1958, before a sharp decline carried prices of most foreign growths down by 4 to 5 cents a pound before the middle of 1959. By late spring of 1958, increasing inventories of textiles in foreign consuming countries reflected weaker consumer demand, and reductions in mill operations were general. Concurrently, cotton markets weakened under pressure of substantially larger prospective new-crop supplies in important foreign exporting countries. By early fall of 1958, it was apparent that moderate unsold supplies remained from the previous crops in most foreign exporting countries and larger 1958 crops were expected at a time when importers were still limiting purchases to nearby needs. As a result of mid-1959, prices of upland cotton in import markets were substantially below those of a year earlier.

Cotton Prices Competitive and Rising On World Markets



1955 1956 1957 1958 1959

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Prices of foreign extra long staple cotton, by reason of pressure of excessive supplies against a weakening world market, fell to almost unprecedented lows that were far beyond the point where American Egyptian extra long staple could compete, and practically to the level of ordinary long staple prices.

In February 1959, announcement was made of a decrease in the U.S. support price level for the 1959 crop and an increase in the payment-in-kind rate for exported cotton, from 6-1/2 to 8 cents a pound, the latter to become effective for exports beginning August 1, 1959. Modifications in the acreage allotment and marketing quota program indicated that the U.S. crop would be substantially larger in 1959-60. The extent of such adjustment in U.S. export prices for 1959-60 was considered to be necessary to place U.S. prices in a competitive position with existing prices of other growths moving into world trade in volume. However, the anticipated increases in U.S. production and exports in 1959-60 caused larger volumes of other growths to be offered on a declining market. Thus the market was further adversely influenced by heavy offerings in a period of hand-to-mouth buying as the textile recession abroad continued and mills in consuming countries were striving to liquidate inventories of higher priced textiles and reduce stocks of raw cotton before the lower U.S. export prices became effective. By August 1, 1959, foreign Free World exporting countries had succeeded in reducing cotton stocks to about the average of the last 5 years.

Toward the end of the 1958-59 season, prices of U.S. cotton in world import markets declined by about the aggregate amount of the decrease in price support for the 1959 crop and the 1-1/2 cents increase in the payment-in-kind rate under the export program. However, such prices, though competitive with other growths, related generally to cotton to be exported on and after August 1, the effective date of the increased export payment rate. Most of the 6 million bales of 1958-crop loan cotton in CCC stocks could not be made available until several weeks after cataloging began on August 1. Cotton from the 1959-crop cotton could not be made available as quickly under the new legislation applicable to this cotton as in past years when shippers obtained cotton directly from producers. The net effect of this, plus a relatively tight supply situation with respect to commercial stocks, was a slow movement of U.S. cotton into export channels during the early weeks of the 1959-60 season. Sales of U.S. cotton for export were confined largely to grades Middling and below, since prices of these qualities were more attractive when viewed from the standpoint of quality differentials.

Lower grades of good character white and light-colored U.S. cotton have been in strongest demand in the world market in recent months. The market for medium and higher qualities of cotton was much more active in other exporting countries whose new crops were becoming available. Prices accepted for these competing growths at that time did not reflect forthcoming improvement in world trade resulting from rising consumption abroad and probable rebuilding of comparatively low cotton stocks in importing countries to more normal levels. One net effect of the rush to market foreign cotton on a buyer's market before U.S. supplies from the loan and the new crop became available at acceptable prices was to leave to the United States the bulk of the market for the latter part of the current season. By the end of October, most of the exportable supply from Mexico and some other exporting countries had been sold and prices of some foreign growths had risen from 1 to 2 cents a pound from the level of 2 months earlier.

The addition of monthly carrying charges to CCC sales prices, together with early liquidation of a major part of foreign exportable supplies for this season, provides added strength to prospective world prices in coming months. Registrations of U.S. cotton to be exported prior to August 1, 1960, had reached the 4.7-million-bale mark by December 18, and adequate supplies of all qualities were still available.

TABLE 1.--Cotton: World stocks, production, consumption, and exports, by area, 1954-59¹

Item and area	1954	1955	1956	1957	1958 prelimi- nary	1959 estimated
Beginning stocks:	<i>Million bales²</i>	<i>Million bales²</i>	<i>Million bales²</i>	<i>Million bales²</i>	<i>Million bales²</i>	<i>Million bales²</i>
United States.....	9.7	11.2	14.5	11.3	8.7	8.9
Foreign Free World:						
Exporting countries.....	3.8	3.9	2.9	3.4	4.1	3.6
Importing countries ³	5.9	5.9	5.2	6.2	6.0	5.3
Communist countries.....	2.6	2.1	2.5	2.8	3.3	3.8
Foreign total.....	12.3	11.9	10.6	12.4	13.4	12.7
World total.....	22.0	23.1	25.1	23.7	22.1	21.6
Production:						
United States ⁴	13.7	14.7	13.0	11.0	11.5	14.7
Foreign Free World.....	15.8	16.3	15.9	16.8	17.3	16.9
Communist countries.....	11.4	12.6	13.0	13.7	15.4	15.1
Foreign total.....	27.2	28.9	28.9	30.5	32.7	32.0
World total.....	40.9	43.6	41.9	41.5	44.2	46.7
Consumption: ⁵						
United States.....	8.8	9.2	8.6	8.0	8.7	9.0
Foreign Free World:						
Exporting countries.....	3.9	4.2	4.4	4.5	4.8	5.0
Importing countries.....	15.0	15.1	16.6	15.9	15.4	16.5
Communist countries.....	12.5	12.9	13.4	14.7	15.9	16.5
Foreign total.....	31.4	32.2	34.4	35.1	36.1	38.0
World total.....	40.2	41.4	43.0	43.1	44.8	47.0
Exports:						
United States.....	3.4	2.2	7.6	5.7	2.8	6.0
Foreign Free World ⁶	7.3	9.3	6.7	6.9	8.7	7.5
Communist countries.....	1.6	1.6	1.5	1.5	1.6	1.6
Foreign total.....	8.9	10.9	8.2	8.4	10.3	9.1
World total.....	12.3	13.1	15.8	14.1	13.1	15.1
Exports, net, Free World to Communist.....	.2	.7	.7	1.3	1.2	1.0

¹ Year beginning August 1. ² 500 pounds gross weight, except for U.S. cotton, which is in running bales. ³ Includes cotton afloat, in transit, and in free ports. ⁴ In-season ginnings plus city crop and small allowance for adjusting balance where necessary. 1959 based on December crop estimate. ⁵ Excludes cotton destroyed or unaccounted for.

⁶ Includes small amounts reexported.

COMPETITIVE POSITION

For the next several seasons, the prospects for exports of U.S. cotton and for world trade in cotton are encouraging. World trade in cotton textiles, however, may not feel the full effect of population increases and greater economic activity because of steady expansion of mill industries in countries that normally import substantial quantities of textiles.

For the United States, the situation and outlook can be summarized in these assumptions: The United States will (1) be a reliable source of supply for cotton; and (2) continue to make strides in research and sales promotion that will help cotton forge ahead despite intensified competition from manmade fibers. In addition, it may be assumed that U.S. cotton will continue to be priced competitively in relation to other growths and to competitive fibers. Any major shortfall on one or more of these items could result in a lower level of cotton exports from the United States than would otherwise occur.

Natural, Economic, and Political Considerations

Cotton production and export availabilities are subject to sharp year-to-year changes as well as longer-term upward or downward movements. There can be numerous reasons for such changes. For example, in Uganda, both acreage and production are lower during the current season, mainly because the lateness of the rainy season delayed plantings. In Argentina, too much rain and some flooding, together with severe pink bollworm infestation, cut the 1958-59 crop something like 40 percent. Many of the same unfavorable conditions exist in 1959-60. In Mexico, uncertainty over cotton prices, a heavy backlog of unpaid production loans carried over from 1958, and a consequent reluctance on the part of lending agencies to finance large plantings in 1959 caused Mexican producers to reduce acreage nearly 30 percent. In Colombia, continued expansion of cotton acreage has resulted from several years of favorable yields, a strong level of domestic demand, and a support price substantially above the world market level. Production exceeded mill consumption for the first time in 1959-60.

Despite the hazards of forecasting the course of events, a forward look at some of the factors of likely importance in this country and abroad may be of general interest.

In the United States, the national acreage allotment for upland cotton remains unchanged in 1960 at 16,310,000 acres, and again farmers who elect to do so may exceed their upland allotment by up to 40 percent in return for accepting a lower level of price support. If yields are at, or above, the recent average--and they have trended upward in recent years--U.S. cotton production in 1960 could be near or above this year's level of 14.7 million bales of 500 pounds each. In any event, the United States is virtually assured of a total domestic supply of cotton to cover domestic and export needs with, at most, only a small drawdown from the present rather large carryover. Thus the United States will continue to have abundant supplies of the desired qualities of cotton available for export.

In foreign countries, the plans to expand production under general economic development programs and the manner in which resources are being mobilized to meet production goals mean resumption of the upward movement in cotton production, after the dip of the current season.

The extent to which the production of cotton outside the United States is responsive to changes in world prices varies from country to country. Also, price-production relationships are assessable only over the longer range period. The primary consideration is how attractive cotton cultivation appears to the individual grower as a source of income. He may have a choice of more profitable crops or enterprises than cotton, or he may find existing cotton prices too low to cover a high cost of production. In an increasing number of countries, much depends on the extent to which governments are willing, or able, to provide subsidies or other incentives to encourage greater production of cotton.

Of the foreign producing countries with crops of over 100,000 bales each in 1959-60, a sizable number show sharp increases over their respective 1950-54 average production levels. Percentagewise, the 317-percent increase in Spain has been the most spectacular, since production increased from an average of 60,000 bales in 1950-54 to 250,000 bales this season. In Colombia, production increased from an average level of 69,000 bales to 250,000 bales, or 262 percent. In each instance, a deficit producing country utilized active promotion to stimulate the expansion, including support prices that were above world price levels. Tanganyika, El Salvador, and several smaller producing countries more than doubled their 1950-54 average in 1959, while Mainland China, Sudan, Iran, Syria, and Greece all expanded their production by from 63 to 98 percent.

The increased production accounted for by these and other countries affects the world cotton situation in various ways. In red China, for example, the higher level of cotton production is the necessary prerequisite to achieving a higher domestic mill consumption, since it is scarcely to be expected that this country will be willing for at least some time to increase the importation of raw cotton for the sole purpose of producing textiles for domestic use. A clearly different situation is illustrated by Colombia's large increase. That country is trying to conserve foreign exchange by producing more of its own raw cotton requirements. Prior to this season it was a deficit producer that used sizable amounts of foreign exchange to pay for imported cotton needed by its textile industry. Except for Spain, the other countries were already cotton exporters and were increasing their reliance upon cotton as an export crop.

Many of the forces that have caused total foreign cotton production to score such gains during the past decade are still present. And production would already be higher except that some countries with a potential for increasing production have such significant impediments to it as need for more food production or limited labor. Doubtless, first one country and then another will overcome these impediments. The cumulative effect is likely to be a continual uptrend in cotton production, but a more gradual one than during the past decade, since world market conditions and competition during the next few years are not likely to be conducive to a rapid increase.

Foreign Consumption

In most countries, the general level of economic activity has an important effect upon cotton consumption. This was apparent during the general economic decline in 1958 and the recent recovery. In some countries, the quantity of cotton consumed in any given year is governed almost entirely by the amount of domestic cotton production. Such countries, by deliberate national policy, neither export nor import raw cotton on a regular basis.

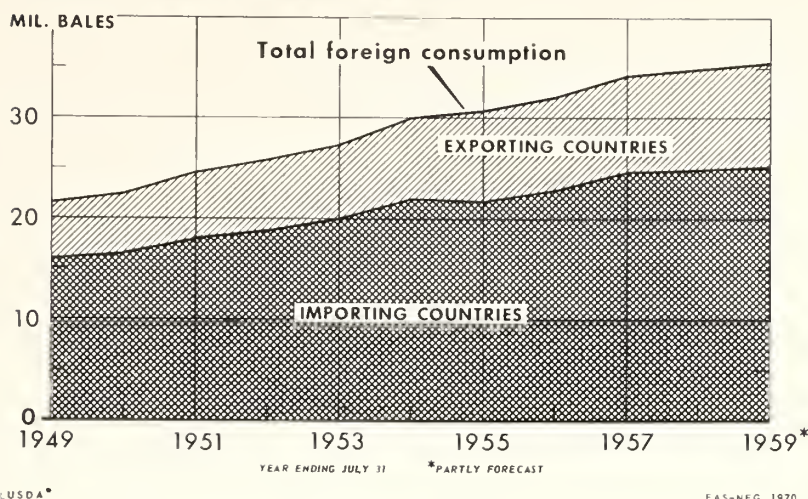
Another factor is the standard of living. It is important in analyzing differences between countries and in explaining trends in national levels. Two additional factors are population growth and changes in competition with other fibers, particularly manmade fibers. Both in the short run and over the longer pull, cotton is benefiting from developments in these various lines.

Competition From Manmade Fibers

In any analysis of the future foreign market for U.S. cotton, one of the important areas for study is the likely impact of materials that are competitive with cotton for numerous end-use markets. Manmade fibers are the products that have made greatest inroads, but markets have also been lost to paper and plastics.

Rayon and acetate staple fiber are cotton's most important competitors. They can be processed on cotton spinning and weaving machinery and used either straight or in blends for many products that traditionally have been made of pure cotton. Cotton also has lost ground to manmade fibers in continuous-filament form in such items as tire cord, for

Uptrend in Cotton Use Abroad Continues; Greatest in Exporting Countries



which high-tenacity rayon and nylon have become popular in some countries. Production of nylon and other non-cellulosic fibers is increasing abroad, and their cumulative impact upon cotton consumption will undoubtedly increase.

During some periods, cotton has been priced so high that its competitive position has been weakened. In most of 1959, however, the lower level of world cotton prices has been in cotton's favor, although a part of the initial benefit was lost when rayon staple fiber prices in most European countries were reduced early in 1959. No one would contend that it would be feasible for cotton to be priced low enough relative to competing materials to regain all the ground it has lost. However, cotton suffered the greatest inroads in its markets when its own price was relatively high. This has been more evident in some countries than in others, but on the average, there has been a strong relationship between the effective price of cotton and its competitive position.

Other considerations in comparing the competitive strength of cotton with other fibers are consumer preferences, special qualities that excel in certain end-uses, costs of processing or handling, durability, and laundering requirements.

Foreign Exchange Considerations

It is within the area of foreign exchange considerations that some of the most significant and favorable developments affecting export prospects for U.S. cotton have occurred during the past year. In early 1959, a number of important cotton-importing countries announced a major step toward currency convertibility. As the year progressed, additional steps have been taken to liberalize trade with the dollar area. As a consequence, more countries now permit their cotton mills to obtain foreign exchange--whether dollar or some other--with fewer impediments than at any time since the outbreak of World War II.

This increase in convertibility with reduced trade restrictions helps the export of U.S. cotton only if its prices are as attractive to foreign buyers as are other goods, since the freeing of trade permits the importing mill to transact business wherever it finds it most advantageous to do so.

In addition to the greater ease in many countries with which mills may obtain dollar exchange to buy U.S. cotton, special programs make it possible for certain countries still experiencing serious balance-of-payment problems to obtain U.S. cotton. Under both section 402 of the Mutual Security Act and Public Law 480, countries not otherwise able to pay in dollars may use their own national currency to pay for U.S. cotton. Also, some countries are eligible to barter for U.S. cotton. Special credit arrangements, such as loans from the Export-Import Bank, or the Commodity Credit Corporation, also facilitate the purchase of U.S. cotton by foreign mills.

Actions of Other Governments

Numerous governments have taken actions to stimulate or protect their cotton and cotton textile industries. Some of these actions are taken with an intent to affect directly the raw cotton and/or the textile industry of the particular country. Other actions are directed at some broader aspect of the national economy, and although cotton may not be the primary objective, the influence upon it can be far-reaching.

One of the general areas in which considerable activity has developed during the past year has been in economic integration. Such phrases as the "European Economic Community" (The Common Market), the "European Free Trade Association" (The Outer Seven), the "Nordic Union," and the "Latin American Common Market" are being translated into formal treaties and meaningful operations. Only time will reveal their ultimate impact upon U.S. cotton exports. A close watch will be in order, and timely action by the United States may be called for if discriminatory action against U.S. products is to be avoided. However, if such efforts toward economic integration are successful, and if the hoped-for economic improvements of the associated areas materialize, the market for U.S. cotton in Europe might benefit.

The more direct government actions affecting cotton are illustrated by the active encouragement of increased plantings of cotton in a number of countries. In most cases, special encouragement has been offered to producers for the purposes of reducing the need for imported cotton, providing a means of income for more farmers, or earning additional foreign exchange by increasing exports.

There has been considerable controversy involving international trade in cotton textiles at various places in the world during the past year. The world textile recession undoubtedly played a part by making many countries particularly sensitive to textile imports or to the loss of export markets. Early in the year, Red China was making a particularly intensive bid to gain inroads into many markets. Efforts in this direction met with a measure of success but also with some degree of resistance. However, this pressure to export cotton textiles subsided as the year progressed.

Japan sought unsuccessfully during 1959 to gain agreement to an increase in its voluntary cotton textile export quotas to the United States. Also, during the year Japan agreed to limit exports to additional markets. The United States and United Kingdom were concerned by the rapidly rising level of textile imports from Hong Kong, and discussions designed to encourage Hong Kong to institute a system of voluntary quotas bore fruit for the United Kingdom, but up to mid-December there had been no such arrangement for the United States. The councils of economic integration in Western Europe as a whole have explored the problem of coping with the ever-present threat of imports of low-cost cotton textiles from Far Eastern sources. This concern has not been limited to shipments from Red China, whose products are state-traded, but includes shipments from other sources where normal trading patterns are followed. These Far Eastern countries--Japan, Hong Kong, India, and Korea--are able to sell cotton textiles in world markets at very competitive prices. International trade in textiles is likely to continue as a sensitive area in the coming year, with both exporting and importing countries subjecting their policies to careful reappraisal.

BUILDING WORLD MARKETS FOR U. S. COTTON

Market Surveys and Liaison Work

In developing and maintaining foreign markets for U.S. cotton, firsthand surveys of market conditions in importing countries have been an important tool. So has the liaison work of agency specialists with governments and trade groups at home and abroad, textile manufacturers and research scientists, and international organizations concerned with cotton.

During the calendar year 1959, the marketing specialists consulted with cotton interests in 26 countries around the world--11 Asian, 14 European, and one African.

In making such surveys, specialists investigate the trend in cotton consumption, the general economic situation, the development of the cotton textile industry, and the needs for U.S. financing of cotton imports under P.L. 480. They also discuss import problems dealing with U.S. cotton--quality, price, weight, terms of purchase, financing, etc.; they obtain samples of foreign cottons for testing and examination by the U.S. Department of Agriculture; and, since the institution of CCC cotton export sales programs, they have established a system under which weekly c.i.f. price information on U.S. and competing foreign cottons is obtained in several of the world's largest cotton import markets and forwarded to Washington. This information is needed to assist the Department of Agriculture in carrying out provisions of present legislation requiring that the U.S. export price be kept competitive with the prices of other growths.

In countries where there are Public Law 480, Title I, cotton programs, the marketing specialists appraise the workings of and the problems related to such programs. Also, they study the methods used by foreign-exporting countries in marketing their cotton. The findings of the cotton marketing specialists are published in circulars, articles, and reports.

In addition, these specialists inform foreign trade groups on the types and qualities of U.S. cotton that are available; on grading and quality testing methods; and on the latest developments of research on cotton marketings and utilization. Staff members also keep foreign governments and industry groups and organizations informed of the various programs and policies of the U.S. Government. Through their periodic visits and consultations, they provide the kind of liaison with foreign importing countries that contributes to further building and maintaining of world markets for U.S. cotton.

Technical Services

Scientific research has long been recognized as a contribution toward market improvements and the expanded use of cotton. The technical liaison service program, through periodic visits by the cotton technologist to foreign customers for U.S. cotton, uses the results of research studies to further point up the superior characteristics of U.S. cotton. The cotton technologist, with the assistance of the U.S. agricultural attachés, confers with importers, mill personnel, research institutes, textile machinery and instrument manufacturers, and others on the latest developments in fiber and textile technology. These conferences cover a wide range of interests, with discussions pertaining to fiber testing, production, harvesting, ginning, packaging, manufacturing techniques, and the properties of the finished products. During 1959, the cotton technologist consulted with 28 mill groups, 16 textile schools and research groups, 12 merchant groups, 11 miscellaneous groups, and 2 textile machinery manufacturers in 11 Western European countries. Not only are publications and ideas exchanged during these discussions, but also many contacts are continued after the return of the technologist to Washington. These activities not only contribute to a more efficient use of U.S. cotton in foreign mills but also result in benefits to the U.S. industry by supplying the latest information on new developments abroad in the fields of research, instrumentation, textile processing, and machinery design.

Competition Studies

Developments in other cotton producing countries are followed closely. This activity involves keeping in touch with the research work conducted abroad that has a bearing on future cotton production, as well as with leaders in other phases of cotton production and trade. Also followed are developments in (1) manmade fiber production and use in the major cotton markets abroad, (2) foreign trade in textiles, and (3) developments in public regulations, tariffs, etc., that affect the international trade in raw cotton and cotton textiles.

During 1959, an on-the-spot study was made of cotton production in certain South American countries, and work was completed on reports of developments in the USSR, Africa, and Communist China. Analyses are currently being prepared on interfiber competition in Western Europe, and on cotton production potential in South American areas. The findings of these various surveys have been drawn upon extensively in the preceding sections of this report.

An interesting and valuable byproduct of the competition surveys abroad is the opportunity to meet with the numerous cotton leaders throughout the world who do not attend international cotton conferences where the cotton policies of different countries are discussed by representatives of their respective governments. These informal meetings permit specialists to explain U.S. cotton policy as related to the world cotton situation and supplement the efforts of the U.S. agricultural attachés and their' staffs.

Study of U. S. Cotton Bale Package in Export Markets

During the past fiscal year, field work was completed on the study of the condition of U.S. cotton bales in foreign markets, a cooperative undertaking of FAS and the Agricultural Marketing Service. Information and data have been obtained in eight countries of Western Europe, India, Hong Kong, and Japan. It is expected that the results of this study will be published early in 1960.

The National Cotton Council of America is planning to use the results of this investigation in foreign countries along with results of a similar study of the bale package in U.S. domestic trade, as a basis for working out a cooperative improvement program with all segments of the raw cotton industry.

Special Export Programs

Over the past 20 years, the U.S. Government has assisted the export of cotton with various types of programs. These export-aid programs were considered necessary mainly for the following reasons: (1) Excess of world cotton production over world consumption frequently results in depressing world cotton prices below the U.S. price support level, with a consequent drop in U.S. exports and accumulation of large stocks; (2) a number of cotton importing countries were unable, in postwar years, to rehabilitate their textile industries or to import U.S. cotton without U.S. financial assistance; and (3) actions of other governments to assist their producers and exporters of cotton tend to increase the need of the U.S. industry for similar government action.

In the 5 seasons ending with 1955-56, world production exceeded world consumption by over 12.0 million bales. During this period, average annual production in the United States was 15.0 million bales compared with 12.3 million in the 5 years immediately preceding. This was an increase of 22 percent. However, during this same period, production outside the United States rose to an average of 25.0 million bales per year from 14.9 million in the earlier period.

Other producing countries disposed of their production and reduced stocks to minimum levels by the end of the 1955-56 season. However, despite a moderate decrease in production in the United States, stocks in this country rose from 2.3 million bales on August 1, 1951, to 14.5 million on August 1, 1956. In 1954, as a result of the larger supplies, existing legislation required reinstatement of acreage controls, and these controls still remain in effect. Although the tremendous increases in production in other countries were largely responsible for the buildup in world surpluses, the entire excess of world production over world consumption accumulated in the United States.

During 1955, prices of foreign-grown cotton declined by about 30 percent and fell to a level 5 to 8 cents a pound below U.S. prices. As a result of this price disparity, U.S. exports during the 1955-56 season dropped to 2.2 million bales; this, with the exception of 1947-48, was the lowest peacetime level in 85 years.

CCC Export Sales Programs.--Faced with the prospect of a continued heavy loss of export trade, the United States in the early part of 1956 inaugurated an export program under which government-owned cotton was offered for sale at prices ranging from 6 to 7 cents a pound below the price at which U.S. cotton could be offered previously. This reduction made U.S. export prices competitive with the prices at which cottons of other countries were then being sold for export.

At that time, representatives of numerous other cotton exporting countries expressed fears that the U.S. program would lead to a price war. These fears were not realized. U.S. export prices were established at the existing world level and were gradually raised by a total of nearly 2.5 cents a pound over the next 2 years to July 31, 1958, by the addition of monthly storage and handling charges. This program encouraged importing countries to rebuild stocks to normal levels, and was accompanied by substantial increases in foreign consumption in 1956-57 and 1957-58.

While drastic reductions in acreage planted to cotton were carried out in the United States, production in other countries continued to rise. Acreage in the United States in 1958 was the lowest since 1876, whereas the area of 68.0 million acres planted to cotton in other countries was at an alltime record.

In 1958-59, as a result of renewed pressure of surpluses outside the United States on prices, the United States was faced with a situation similar to that which existed in 1955-56. Increased foreign production, coupled with decreased consumption, resulted in weakening of the competitive position of U.S. cotton in world markets.

Since 1920, exports of cotton from the United States have averaged 5.4 million bales annually, and have been equal to more than 46 percent of total world trade. Yet exports during the 1958-59 season fell to 2.8 million bales, and constituted less than 25 percent of the world total. Under the circumstances, it again became necessary to reduce U.S. export prices in order to bring them into line with those of other countries.

Domestic prices were lower by about 3 cents a pound in August 1959 than a year earlier, and the export payment rate was increased from $6\frac{1}{2}$ cents to 8 cents. These two developments caused a reduction of around 5 cents in U.S. export prices and brought them down to the level of other growths.

Through July 31, 1959, exports under the cotton export sales programs in effect since January 1956 had aggregated 17.4 million bales. By December 18 about 4.7 million additional bales had been registered for export during the 1959-60 season.

In order to provide equal treatment between foreign mills using U.S. cotton and U.S. mills producing textiles for export, CCC initiated an export payment program for cotton textiles. The payment is applicable to the raw cotton content of each particular class of textiles exported from the United States. The rate is based on the spread between the domestic and export prices for cotton, and may vary from time to time. Cumulative payments since this program was begun on August 1, 1956, totaled \$47.3 million through October 1959.

Government Financing Under Assistance Programs.--Exports under the assistance programs referred to in this section are a part of, and not in addition to, exports under the competitive bid sales programs and payment-in-kind programs already discussed. Over the past 20 years or so the U.S. Government has assisted the export of cotton through various financial programs, including cash subsidies, export differential payments, special grants, donations, loans, foreign currency sales, and barter. For example, during World War II the lend-lease program moved cotton to U.S. allies overseas to assist the common cause. After the war the Marshall Plan made U.S. cotton available to countries devastated by the war and unable to purchase the substantial quantities needed to get their cotton textile industries on a sound basis once more.

Several changes worthy of note have occurred in the past 5 years in the nature and extent of government assistance to cotton exports. Sales for foreign currencies under the Mutual Security program and Title I of Public Law 480 have comprised a significant proportion of the assistance from 1954-55 through 1958-59. Export sales under these two programs have ranged from a high of 52 percent of total exports in 1955-56 to a low of 27 percent in 1957-58. The amount programmed thus far in 1959-60 is less than for the same period last year, and it appears that total exports financed under these programs this year may be lower than in 1958-59, when about 1.4 million bales were exported under such programs. These sales for foreign currencies have helped fill the needs of friendly countries whose gold and dollar reserves are relatively low and whose ability to buy for dollars is limited. The currencies received in payment under the Mutual Security Act sales are made available as grants and loans to foreign countries. Over half of the foreign currencies received under P.L. 480 are made available as loans for economic development (part of which are for U.S. firms) and nearly one-third are reserved for U.S. uses, including market development projects.

TABLE 2.--Cotton: U.S. exports under designated programs, exports for dollars, and total exports, 1954-59

Year ending June 30	Public Law 480, Titles I and II ¹	Mutual Security program ²	Barter	Dollar exports		Total exports
				Export- Import Bank loans	Total ³	
	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales
1955.....	63	1,085	2	307	2,466	3,616
1956.....	491	625	51	334	972	2,139
1957.....	1,378	857	970	4 421	4,110	7,315
1958.....	888	662	465	727	3,651	5,666
1959.....	648	729	396	333	1,356	3,129

¹ Includes the following for famine relief and other assistance under Title II: 1955, 5,000 bales; 1956, 28,000 bales; 1957, 1,000 bales; 1958, 26,000 bales; 1959, 8,000 bales.

² Bales estimated from records maintained on a value basis by crop years by the Cotton Branch, International Cooperation Administration.

³ Includes Export-Import Bank loans, CCC credit sales, cash dollar sales, and adjustments for differences in reporting data.

⁴ Includes 3,000 bales exported under CCC credit program; no exports under that program in other years shown.

Under Title II of Public Law 480 an average of 13,600 bales annually in the past 5 fiscal years were made available to relief organizations abroad for local use. Cotton's part in the Title II program has not been a large one because food is usually the primary need in a disaster area. There have been no donations of cotton under the provisions of Title III, Public Law 480, which permits donations of agricultural surpluses for distribution abroad.

The barter program, in effect since 1949, involves the exchange on an equivalent value basis of CCC-owned cotton for foreign-produced strategic raw materials, or other materials, goods, and equipment required by U.S. Government agencies. Barter transactions are covered by several legal authorities, including Title III of Public Law 480. U.S. cotton exports under barter arrangements have been at relatively high levels in the last 3 years, averaging about 11 percent of total cotton exports. However, under more stringent barter conditions in effect since May 1957, exports under barter have declined. Early indications are that the volume of cotton bartered in 1959-60 may be somewhat smaller than in recent years.

Export-Import Bank loans, repayable in dollars, have been the principal means through which credit has been extended to dollar customers of U.S. cotton. These loans financed an average of nearly 10 percent of total cotton exports in the past 5 fiscal years. Exports of cotton under the CCC credit sales program, which was begun in March 1956, have been relatively small, totaling only about 3,000 bales in the fall of 1956. Total sales for dollars (including these loans) in the same period varied from 43 to 68 percent of total exports.

Market Promotion Abroad

Since January 1956, FAS has been carrying on a foreign market development program for cotton under the authority of Public Law 480, in cooperation with the Cotton Council International and cotton industry organizations in foreign countries. The objective of this program is to increase the consumption of raw cotton and cotton products and thereby expand the potential export market for U.S. cotton.

Market development projects have been carried on in France, Japan, the Federal Republic of Germany, Austria, Belgium, Italy, the Netherlands, Spain, Switzerland, the United Kingdom, Finland, India, the Philippine Republic, and Sweden. The countries in which projects are now operating represent about 75 percent of the total U.S. export market.

The methods of promotion are similar to those employed successfully by the National Cotton Council in the United States over the past 20 years. Main features are: Information and photographic service for newspapers, magazines, radio, and television, portraying consumer and home uses of cotton products; public relations work emphasizing the importance of cotton products in the economy and daily lives of the people; work with manufacturers, retailers, and fashion experts on improving designs and types of cotton fabrics, using more cotton in apparel fashions, improving distribution and retail selling, and encouraging greater advertising and promotion by individual firms. Fashion shows, special events, motion pictures, and exhibits at international trade fairs are important means of telling the public at large about cotton and its uses. All of these activities and programs are planned and developed on the basis of market research to indicate who buys what and why, so that the potentialities for an expanded market may be better understood and the promotion phases of the programs may be used more effectively. The primary objective of the programs is to encourage people to be better dressed and to make their homes more comfortable and attractive, and, naturally, the efforts are aimed at persuading them that they can do this best with cotton.

There is growing evidence that the cotton promotion programs are catching on. The foreign trade organizations have adapted the basic techniques of the sales promotion, public relations, and market research program of the National Cotton Council to their own situations, and are branching out with special projects of their own.

Austria is promoting cotton for teenagers. The Swiss sent a four-car "Cotton Train" around the country showing educational exhibits, style shows, and the movie "Cotton--Nature's Wonder Fiber" to store buyers, editors, and fashion leaders. More than 3,000 Italian stores took part in a nationwide contest for the best window displays of cotton goods. The British Cotton Board has the cooperation of washing machine makers, soap

companies, electric power distributors, newspapers, and even labor unions, in promoting cotton. France has devised a novel advertisement series showing famous designs using cotton. Belgium has been successful in using a "Cotton Queen" to create publicity for cotton and its acceptance at a high-fashion fabric. The Germans are tying cotton in with the rebirth of Berlin as a fashion capital.

One of the most impressive promotion activities carried out in recent months was the pageant "Cotton Through 5,000 Years," which was staged for the International Federation of Cotton and Allied Textile Industries meeting before an audience of representatives from 18 nations on September 23 in Vienna.

Museums, scholars, and designers all over the world cooperated in assembling 47 garments, in styles ranging from 3,000 B.C. to the present. Some of the reconstructed costumes and settings were based on such small clues as a few threads of cotton from 5,000 years ago, pieces of fabric woven before Christ by the Indians of Peru, or quotations from the Roman writer Pliny.

The pageant, a fascinating history of cotton and fashion, effectively demonstrated to the textile executives how cotton's beauty and comfort has made it the choice of the world's royalty, artists, and beauties as long as history has been recorded. The garments made for the pageant were used in a 12-minute movie in German, French, English, and other languages for use around the world in cotton promotion programs.

Another historic venture in international promotion was the round-the-world tour of the 1959 U.S. Maid of Cotton. The Maid's visits to 15 cities in 12 countries in 52 days was the first truly global fashion and good-will project ever undertaken by any fiber industry. During this time, the Maid gave 33 fashion shows attended by more than 26,000 persons; held 15 press conferences; was honored at 72 official luncheons, dinners, or receptions; visited 53 mills, stores, or manufacturing plants; appeared in 20 television programs and 17 radio broadcasts; and starred in a 14-minute movie.

This movie, together with color slides, still photographs, and background materials, for use in year-round cotton market development programs, are being made available to the cotton industries throughout the world. Also, themes and references for sales promotion campaigns, books, schools, colleges, women's clubs, television broadcasts, and motion pictures are being provided around the globe.

The cotton market promotion program appears to have stimulated greater interest in advertising and promotion by the entire textile trade. Resulting programs can be many times the level of the cooperative programs. Response of the Italian industry, for example, is typical. Five leading firms were honored last December for their outstanding contribution to cotton in Italy in 1958. Three of these five firms had never done any cotton advertising. These three alone last year invested four times as much as the entire CCI-USDA program in Italy. In France, six mills that have recently started promotion work are spending ten times as much as the cooperator. Promotion by Japan's "Big 10" cotton spinners has more than doubled since the program began. Their investment in advertising and promotion in Japan is eight times the annual level of the cooperative program there.

These programs are awakening the foreign cotton industry to the realization that cotton has a great potential. New enthusiasm is being generated, and there is a general realization throughout the cooperating countries that the future increased use of cotton can be impressive.

The ultimate value of the cotton market development program to the United States will be measured in terms of the maintenance and expansion of the export market for cotton. The potential for such expansion is tremendous. For example, per capita consumption of cotton in the United States is about 25 pounds a year. The world average is about 6.6 pounds. European annual per capita consumption is about 10 pounds. Increasing

the world per capita use by only 2 pounds would require the growing, harvesting, shipping, ginning, weaving, fabrication, and distribution of an additional 11 million bales of cotton annually. This could mean an increase of several million bales in U.S. exports.

Market Information and Services

Comprehensive, up-to-date information on cotton production, trade, consumption, and prices in foreign countries is essential for maximum development and maintenance of export markets for U.S. cotton. FAS regularly receives information on current developments in foreign countries which is analyzed and published weekly in Foreign Crops and Markets. In addition, circulars dealing with all phases of the cotton industry on a world-wide basis are issued on a prearranged schedule.

Special Program and Policy Reports.--U.S. production and export programs for cotton are of vital importance to foreign cotton producing and consuming countries. For this reason, the agency prepares regular and special cotton program and policy reports for use by attachés and other officers stationed in foreign countries. These reports provide prompt, factual information and interpretations which attachés find highly useful in their contacts with government and trade representatives.

Other Publications.--Reports and analyses on various problems or aspects of the world cotton situation and outlook are prepared at frequent intervals. These go to all segments of the U.S. cotton industry and to interested groups abroad and are widely reprinted. Other reports and feature articles are prepared for publication in Foreign Agriculture (issued monthly) as well as in trade publications, such as the weekly issues of The Cotton Trade Journal and that company's International Yearbook.

Basic information and statistical data contained in these reports and publications are obtained mainly from U.S. agricultural attachés and agricultural officers stationed at some 50 posts all over the world and from embassy officers at other posts.

Through these reports and through personal contacts with trade and industry groups at home and abroad, it is possible to maintain and publish up-to-date information on developments in other countries that affect the outlook for U.S. cotton export trade. Information obtained by FAS cotton specialists who visit several groups of foreign countries each year is published as soon as practicable after the trips are completed.

Representation at Meetings of International Organizations

In 1959 an FAS representative served on the U.S. delegation to the Eighteenth Plenary Meeting of the International Cotton Advisory Committee, held in Washington in May, and participated in regular meetings of the Standing Committee of the ICAC. Also he was the U.S. delegate to the First Inter-American Cotton Conference at San Salvador, El Salvador, in March, and in meetings of the Special Subcommittee of ICAC on Extra-Long Staple Cotton, held in Alexandria, Egypt, in September.

The meeting in San Salvador, held at the invitation of the Government of the Republic of El Salvador, was attended by delegates from Latin American cotton producing countries. Its purpose was the discussion of current world cotton problems with a view to arriving at solutions that might be acceptable to these Latin American countries and the United States. Most of the discussions were directed toward the two-price system under which the United States permits the sale of cotton for export at prices substantially below the domestic price.

The U.S. delegate explained the U.S. position by pointing out that:

(1) The United States began exporting cotton in 1790, and was exporting close to 7.5 million bales annually around the turn of the present century;

(2) During the past few years, the United States has deliberately reduced acreage more than 50 percent, while other producing countries were steadily increasing both acreage and production;

(3) Other producing countries were disposing of their production in world markets while all the increasing world surplus was accumulating in the United States;

(4) The reduced U.S. export price did not undercut the prices of cotton moving from other countries but merely brought the U.S. price down to the level to which other prices had fallen as a result of sharply increasing production outside the United States; and

(5) The U.S. cotton policy was one in which restoration of price stability and confidence in the market was of foremost importance.

The meeting in Alexandria was attended by delegates from the United Arab Republic, the Sudan, and the United States, and by observers from Brazil and Peru. The meeting was held to discuss the world surplus and depressed price situation of extra long staple cotton. The U.S. delegate referred to the greatly improved economic situation in the southeastern part of the United States resulting from the reduction of cotton acreage in favor of other needed crops. He suggested that the countries producing extra long staple cotton seriously consider a similar diversification. The final statement of the Conference recognized this needed diversification; decried the various departures from traditional free market practices; emphasized the importance of stable prices; and endorsed the various programs being conducted to promote expanded cotton consumption.

At the time of ICAC's Eighteenth Plenary Meeting, repeated assurances were given by officials of the Department with respect to the U.S. cotton policy. These assurances centered around the theme that U.S. policy, which has as its primary objective regaining for this country a fair share of the traditional world market for cotton, offers a high degree of protection for the interests and normal markets of other countries. It does not mean that other surplus producing countries, whose national economies are highly dependent on the production and export of greatly increased quantities of cotton, will be forced to retract production and export trade to prewar levels.

These U.S. representations also emphasized the significance to all exporters, of expanding consumption to the extent that the world market could in time absorb the bulk of the exportable surplus of upland cotton at prices fair to all. It was pointed out that price reductions by a particular government, instead of stimulating buying and consumption in importing countries, might very well provoke retaliation elsewhere and thus demoralize the market so that neither exporter nor importer would benefit. The United States repeated its assurances that it would make every effort to maintain stability in the world market.

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